



PUBLIC UTILITIES COMMISSION

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October 11, 2005

Joseph Desmond
Chairman

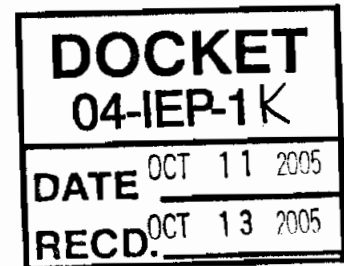
John L. Geesman
Commissioner and Presiding Member, IEPR Committee

James D. Boyd
Commissioner and Associate Member, IEPR Committee

Arthur Rosenfeld
Commissioner

Jackalyne Pfannenstiel
Commissioner

California Energy Commission
1516 Ninth Street
Sacramento, CA 95814



RE: Draft 2005 Integrated Energy Policy Report (IEPR)

Dear Commissioners:

I am writing to express my initial thoughts and concerns about the recently released draft IEPR.

On the positive side, the draft IEPR is to be commended for the thoroughness in which it identifies not only the energy issues facing California but also the range of future actions available to address these issues. Many of the proposed recommendations in such areas as energy efficiency, global climate change, and in evaluating the various resource options to meet California's future energy demands are either based on or build-off of similar recommendations contained in the Energy Action Plan (EAP). I also want to note that the PUC adopted a policy statement at our October 6, 2005 meeting on greenhouse gas performance standards. I have attached a copy of that policy statement to this letter, for your use in finalizing the IEPR policy statement on this subject.

In terms of concerns about the draft IEPR, my major concern is that, as written, it conveys a generally negative tone about California's energy policy. Broad statements

such as “California’s way of life is threatened...by an inadequate and aging energy infrastructure” do little to promote an informed debate and development of a long-term energy policy. Equally important, such broad statements in the IEPR could have a negative effect on California’s business and investment climate deterring businesses from locating in California.

While I don’t mean to diminish the challenges that California faces, the draft IEPR not only understates the numerous steps that California has taken to meet these challenges but also the cooperative spirit in which we have done so. Statements that little or no progress has been made since the last IEPR was issued are not warranted. The Energy Action Plan is a solid example of our energy agencies’ collaborative efforts to improve California’s energy future.

The draft IEPR makes numerous broad statements of problems in the executive summary and chapter headings, many of which implicitly imply inaction by California decision-makers to address these problems. Insufficient attention is given in the report to on-going activities of the Energy Commission, ISO, and our Commission to resolve these problems. Sometimes, buried within the actual text of the IEPR itself, the report notes these efforts to find solutions. For example, while the Executive Summary notes that there are 7,000 MW of permitted but not built power plants and implies that no long-term contracting is taking place, it is not until page 52 that the IEPR notes that the utilities are currently in the process of conducting Request for Offers (RFOs) for about 2,000 MW of this capacity. Nowhere in the IEPR is there any discussion if this is enough, too much, or too little new capacity. Similarly, the IEPR notes the need for new transmission lines to access new sources of renewable power but does not mention the Commission’s recently issued investigation designed to address this same problem.

Many of the policies advocated in the IEPR were not developed in a vacuum but instead were developed directly as a result of the collaborative effort of the state’s energy agencies working through the EAP process. Thus, I was surprised to see that there was no mention of the EAP in the Executive Summary and little if any mention made of the EAP in the draft IEPR. As the EAP itself notes, successful resolution of California’s energy challenges will require all agencies working together and utilizing their areas of expertise and authority.

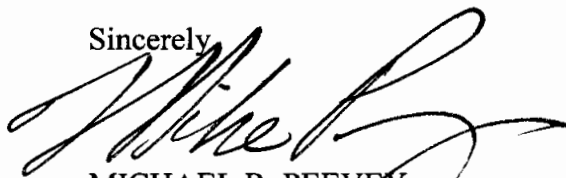
I am also somewhat concerned about the lack of integration in the IEPR. The IEPR proposes numerous policy initiatives but does not contain any analysis as to the inter-relationships between them. For example, while arguing that the state needs to move ahead with construction on already permitted power plants, it contains no analysis as to how this would affect the achievement of other goals called for in the IEPR such as reducing dependence on natural gas, building more cogeneration projects, promoting renewable energy development, and enhancing demand response programs to reduce peak demand. While the IEPR is somewhat critical of the “least cost-best fit” methodology adopted by the Commission to guide resource procurement, the IEPR does not provide the Commission with any alternative framework for evaluating amongst the various resource options provided.

I also must reiterate my personal concern over the on-going efforts of the Energy Commission, expressed once again in the IEPR, that transmission siting be transferred from the PUC to the Energy Commission. As I noted at the last EAP meeting in Sacramento, this is an issue that is needlessly consuming the time and attention of policy makers that could be better spent addressing more important issues. Tracing the history of the Devers-Palo Verde #2 line back to the mid-1980's as proof of inaction on the part of California is to engage in revisionist history and ignore the numerous other resource issues California was addressing at that time.

Finally, I want to note that the PUC adopted a policy statement on greenhouse gas performance standards at our October 6, 2005 meeting. I have attached a copy of that policy statement to this letter, for your use in finalizing the IEPR policy statement on this subject.

I look forward to receiving your "Transmittal Report" that should provide the Commission with demand forecasts and resource scenarios that will serve as the starting point for our utilities' next procurement efforts. I also hope that you will reflect my concerns as the draft IEPR begins to be finalized.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike R. Peevey", with a large, stylized flourish extending from the end.

MICHAEL R. PEEVEY
President

Cc: CPUC Commissioners
CEC Executive Director B.B. Blevins
CPUC Executive Director Steve Larson



California Public Utilities Commission

505 Van Ness Avenue, San Francisco, CA 94102

POLICY STATEMENT ON GREENHOUSE GAS PERFORMANCE STANDARDS October 6, 2005

WHEREAS, In June 2005 Governor Schwarzenegger announced his groundbreaking initiative to reduce California's greenhouse gas (GHG) emissions to 1990 levels by 2020; and

WHEREAS, The California Public Utilities Commission (PUC) is actively participating in the Governor's Climate Action Team and is implementing energy policies that are consistent with the GHG goals; and

WHEREAS, Over the past 12 months the State of California has taken significant strides towards implementing an environmentally and economically sound energy policy through Governor Schwarzenegger's GHG reduction targets and the adoption of the Energy Action Plan II (EAP II) by the PUC and the California Energy Commission (CEC). These policies recognize that principal reliance on energy efficiency, conservation measures and renewable resources is the path to a sustainable energy future that ensures adequate and reliable supply at stable prices; and

WHEREAS, The PUC will meet the Governor's GHG goals and implement the policies set forth in EAP II. The PUC has established new, aggressive standards for energy efficiency and is developing a plan to meet the Governor's goal of a 33 percent renewable portfolio standard by 2020; and

WHEREAS, To the extent efficiency, demand response, renewable resources, and distributed generation are unable to satisfy increasing energy and capacity needs, EAP II states that the State will rely on clean and efficient fossil-fired generation. A key action item in EAP II is to "encourage the development of cost-effective, highly-efficient, and environmentally-sound supply resources to provide reliability and consistency with the State's energy priorities."; and

WHEREAS, the PUC concluded in its December 2004 decision approving the IOUs' long-term procurement plans (Decision 04-12-048) that future regulation of GHG emissions is probable and directed the Investor Owned Utilities (IOUs) to employ an environmental adder in evaluating procurement bids. A GHG emissions standard will further serve to internalize "the significant and under-recognized cost of GHG emissions" recognized in the PUC's Decision ; and

WHEREAS, The establishment of a policy such as a GHG emissions standard for all electric procurement is a logical and necessary step to meet EAP II and the Governor's GHG goals. In order to have any meaningful impact on climate change, the Governor's GHG emissions reduction goals must be applied to the State's electricity consumption, not just the State's electricity production; and

WHEREAS, the CEC has requested the PUC's input on a proposed GHG policy for electricity generation contained in the 2005 draft *Integrated Energy Policy Report* (Draft IEPR) that, "... any GHG performance standard for utility procurement be set no lower than levels achieved by a new combined-cycle natural gas turbine."; and

WHEREAS, in a letter to the IEPR Committee, CEC Chairman Desmond stated, "... California should act to minimize potentially significant reliability and cost risks by avoiding more long-term investments (exceeding 3-5 years in duration) in baseload power plants with emissions per megawatt-hour of greenhouse gases and criteria air pollutants exceeding those of a combined cycle natural gas turbine."; and

WHEREAS, the State's energy agencies must act expeditiously and in concert to send the right investment signals to electricity markets throughout the West. Many of the resources that may generate electricity for consumption in the State are currently in the planning stage. For example, there are approximately 30 proposed coal fired plants across the West, some of which are planned in anticipation of meeting demand in California. The carbon dioxide emissions from just three 500 MW conventional coal-fired power plants would offset all of the emissions reductions from the IOUs' energy efficiency programs and would seriously compromise the State's ability to meet the Governor's GHG goals. As the largest electricity consumer in the region, California has an obligation to provide clear guidance on performance standards for utility procurement; and

WHEREAS, Publicly-owned utilities currently are not required to meet the state's energy efficiency, renewables and environmental standards.

NOW, THEREFORE, BE IT

RESOLVED, The PUC directs the Executive Director to forward this Policy Statement and a report on the deliberations of the PUC on this matter to the CEC;

RESOLVED, The PUC directs Staff and its General Counsel to investigate adoption by the PUC of a greenhouse gas emissions (NOx, SO2, mercury and CO2) performance standard for IOU procurement that is no higher than the GHG emissions levels of a state-of-the-art, combined-cycle natural gas turbine for all procurement contracts that exceed three years in length and for all new IOU owned generation. In the case of coal-fired generation, CO2 sequestration is a necessary means of meeting the standard;

RESOLVED, The PUC directs Staff and its General Counsel to promote and advocate for policies at the state and federal levels that encourage the development of environmentally sound resources with an emphasis on reductions in GHG emissions;

RESOLVED, That the PUC authorizes Staff to investigate the integration of a GHG performance standard into the PUC's existing policies regarding GHG emissions including the environmental adder, the procurement incentives framework, as well as the work of the Governor's Climate Action Team and the CEC. A critical step in this

process will be to collect specific fuel type information for IOU procurement at a level of detail that will allow the State to ensure that the performance standard is met;

RESOLVED, The PUC directs Staff, working with the CEC, to investigate offset policies that are designed to ensure that the Governor's GHG goals are achieved. In addition, the PUC directs Staff to consider whether an offset policy would eliminate the important benefit of mitigating financial risk to California consumers of future GHG regulation and also significantly dampen the market signal for investment in new and improved technologies for clean generation. Finally, any offset policy must include a reliable and enforceable system of tracking emissions reductions;

RESOLVED, in order to ensure consistency, the PUC calls on the publicly-owned utilities to reduce emissions that contribute to global warming by adopting energy efficiency and renewables goals that are comparable to the standards that the IOUs are required to meet under state law and regulation, as well as adopting an equivalent GHG performance standard.